

Minutes of the 75th Monetary Policy Committee Meeting held on 13 August 2025

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The 75th meeting of the Monetary Policy Committee (MPC) was held on Wednesday 13 August 2025 at 09:00 hours at the Bank of Mauritius (Bank). The following members attended the meeting:

- Dr Rama Krishna Sithanen, G.C.S.K (Governor and Chairman)
- Mr. Rajeev Hasnah (First Deputy Governor)
- Mr. Gérard Sanspeur (Second Deputy Governor)

External Members

- Ms. Sharmila Banymadhub-Chakowa
- Dr Myriam Blin
- Ms. Martine Ip Min Wan
- Dr Jameel Khadaroo
- Dr Jeevita Matadeen

1. Bank staff briefed MPC members on global and domestic economic and financial market developments that have taken place since the last MPC meeting held on 07 May 2025.
2. Macroeconomic projections, namely for inflation and growth, were updated in light of latest developments. The Bank has conducted various scenario-based assessments of the impact of those developments on inflation, growth and trade dynamics over the short and medium terms.

3. MPC members were also apprised of the latest macroeconomic projections and carefully reviewed how these various scenarios could play out and impact on global and domestic macroeconomic variables, before deliberating on the policy decision.

Inflation Developments and Outlook

4. The trajectory of global inflation in 2025 remains uncertain, due to the interplay of several conflicting factors that may impact on outturn. These factors – a combination of tariff-induced shocks and potentially perturbed global trade architecture and resulting uncertainty – may catalyze inflationary pressures for net importing economies such as Mauritius, just as much as they may also dampen these pressures due to compressed tariff-induced global demand that a growing number of central banks are concerned about. The net impact on importing economies remains largely country-specific. However, risks to the global inflation outlook remain tilted to the upside and sensitive to geo-political and geo-strategic factors.
5. Inflationary developments in Mauritius remain closely linked to global inflationary pressures due to the combined effects of relatively large propensity to import and relatively high passthrough effects from global commodity prices to domestic price formation. Domestic factors may also weigh in the balance due to their relatively important weight in the Consumer Price Index (CPI) basket, which may tilt inflation in either direction.
6. Inflation among the main trading partners of Mauritius has begun to take an ascending trajectory. The lagged effects of the imposition of global trade tariffs and rising trade protectionism are starting to be felt across regions. In the US, inflation rose to 2.7 per cent in June 2025. In the Euro area, inflation was little changed, hitting the 2.0 per cent target in June 2025, mostly driven by sticky services inflation. Inflation in the UK increased to 3.6 per cent in June 2025 as price increases were noted across food and clothing items and air fares. Among emerging economies, inflation in China moved to 0.1 per cent in June 2025, out of the deflation zone, as consumer demand recovered. In the latest edition of its World

Economic Outlook (WEO) Update released in July 2025, the IMF now projects global inflation at 4.2 per cent in 2025, marginally down from 4.3 per cent forecast in April 2025. The projection for 2026 is maintained at 3.6 per cent. Notable upside risks to the global inflation outlook could arise from widespread trade protectionist measures, fragmentation of global value supply chains, and currency manipulations to preserve external competitiveness.

7. The disruptions to the global trade architecture had non-negligible effects on pricing of commodities, energy and shipping. Global food prices moved up in June 2025. The Food and Agriculture Organization (FAO) Food Price Index – which tracks monthly changes in the international prices of a set of globally traded food commodities – averaged 128.0 in June 2025, up by 0.9 index points from its May level. Adverse climate-related shocks continue to represent upside risks to global food prices.
8. Crude oil prices, which surged in early June 2025 on the back of geo-political tensions in the Middle-East, stabilized by mid-July 2025 to settle at around US\$69 per barrel. The outlook for crude oil prices for 2025 is largely contingent on geo-political developments, trade pattern and architectural shifts, as well as on supply decisions by the OPEC+ members. The Freightos Baltic Index, a metric to assess shipping cost pressures, which almost doubled between April and June 2025, eventually softened as trade talks between the US and China resumed with greater clarity on outlook. A considerable decline in container freight rates was recorded by end-June 2025. Going forward, freight market conditions remain clouded by heightened trade policy uncertainty.
9. Central banks globally are increasingly inclining towards a forward-looking and data-driven approach towards monetary policy. The ongoing uncertainty has prompted many central banks towards the route of caution. Since the beginning of 2025, the vast majority of policy rate decisions has been to maintain interest rates unchanged, taking into consideration 'stagflation' risks, i.e., the risks that the inflation and growth outlooks may move in opposite directions. For other central banks, country-specific circumstances have guided the

magnitude, direction and patterns of their decision-making processes. Some central banks have pursued their dovish stance by easing their policy rate, aided by favourable inflation outcome and subdued demand. Only a minority of central banks opted for a hawkish stance by tightening rates on the back of inflation risks and favourable space on the output front to contain the rate hikes. Out of 259 MPC decisions taken globally so far in 2025, 77 decisions were about cutting rates, 166 decisions have been to maintain the status quo, as opposed to 16 decisions to raise rates.

10. The US Federal Reserve (Fed) held interest rate steady in the range of 4.25 to 4.50 per cent at its July 2025 meeting, balancing growth concerns with rising uncertainty over inflation. The European Central Bank (ECB) lowered its policy rate by a further 25 basis points (bps) to 2.00 per cent in June 2025, with inflation standing comfortably at its 2.0 per cent target. The ECB kept the status quo at its July meeting. The Bank of England (BoE) kept its policy rate unchanged at 4.25 per cent at its June 2025 meeting, over growing concerns about stabilizing output and keeping in check longer-term inflation expectations. It lowered its policy rate by 25 bps to 4.00 per cent at its August 2025 meeting, but indicated the likely ending of its monetary policy easing cycle soon.
11. Market expectations of future possible moves by major central banks have evolved in light of global developments. According to the Refinitiv polls, the US Fed is expected to deliver two policy rate cuts of 25 bps in the second half of 2025, followed by an equivalent policy rate cut in 2026Q1. The BoE is expected to follow in the same direction, cutting rates by a total of 75 bps by 2026Q1. Meanwhile, the ECB is expected to lower interest rates by 25 bps in 2025Q3, subsequently keeping rates unchanged.
12. As aforementioned, while global developments do influence inflationary pressures and price developments in Mauritius, domestic factors also have non-negligible weight in the balance.
13. Headline inflation in Mauritius edged up for the third consecutive month to 2.9 per cent in June 2025, from 2.7 per cent in May 2025, albeit remaining well within the medium-term

target range of 2-5 per cent. The increase largely reflected the impact of budgetary measures which directly influenced the prices of a selection of consumption items, including demerit goods. Year-on-year (y-o-y) inflation accelerated for the fourth consecutive month to 5.4 per cent in June 2025, from a low of 0.1 per cent in February 2025.

14. The two underlying measures of inflation, namely CORE1 and CORE2 measures, are beginning to show signs of stickiness and inertia. In June 2025, headline CORE1 inflation, which excludes the price effects of food items, increased by 0.2 percentage point (pp) to 2.7 per cent, while headline CORE2 inflation, which further adjusts for movements in energy and administered prices, stood at 4.7 per cent, up from 4.5 per cent in May 2025. On a y-o-y basis, CORE1 inflation and CORE2 inflation increased to 3.4 per cent and 5.4 per cent, from 3.0 per cent and 5.3 per cent in May 2025, respectively. Underpinning the upward pressures behind CORE1 inflation lies the stubbornness in price developments of services items which are influenced by upside wage pressures, given the relatively high labour-denomination of services. The Wage Rate Index, which provides an indication of the cost of labour in the economy, increased from 129.7 in 2024Q4 to 131.7 in 2025Q1, albeit wage pressures - which were broad-based across various sectors - have slowed down when measured on a y-o-y basis and in real terms.
15. A further dip into the various decomposed measures of inflation shows a number of interesting tendencies which may have some bearing into how the future evolution of inflation in Mauritius plays out. A deconstruction of headline inflation into imported and domestically-generated inflation shows that both have taken an upward trajectory as of late, with the former (imported) tributary to lagged effects of global inflationary developments despite favourable currency movements and the latter (domestically-generated) attributable to labour-market induced services inflation. Similarly, a deconstruction of headline inflation into goods and services inflation shows that both have been on a rise, especially when measured on a y-o-y basis.

16. Further analysis of the CPI basket reveals that the share of pro-inflationary items has increased. The proportion of CPI items contributing to above-target inflation rates of more than 5 per cent rose from 26.6 per cent in January 2025 to around 40 per cent in June 2025. Meanwhile, the proportion of items exhibiting below target inflation rates (less than 2 per cent) declined to about 44.2 per cent in June 2025, from around 52 per cent in January 2025. The proportion of items contributing to between 2-5 per cent inflation rates was down from 21.4 per cent to 15.9 per cent over the same period.
17. ***Looking ahead, the Bank now projects headline inflation at around 4.0 per cent in 2025, roughly 0.5 pp higher compared to the previous forecast of 3.5 per cent at the May 2025 MPC meeting.*** This upward revision to the inflation projection mainly reflects the impact of measures announced during Budget 2025-26, which include higher taxes on demerit goods and additional excise duties on cars. Nevertheless, inflation is still projected to remain firmly anchored around the Bank's target range of 2 to 5 per cent through the rest of 2025.
18. The outlook for inflation in Mauritius continues to remain subject to significant upside risks, mainly stemming from abroad. The relatively low levels of inflation observed in 2024 and at the turn of 2025 were attributable to favourable external developments, such as stable energy and food prices, normalising freight costs and lower foreign inflation readings. However, over the more recent months, the benign global environment has significantly evolved and is now characterised by increased uncertainty. The likelihood that tariff wars may generate higher inflationary pressures through disruptions in global supply chains and a re-configuration of the global trade architecture is real. Considering the country's relatively high openness and high propensity to import, these developments may inevitably feed into domestic price formation.
19. However, these inflationary pressures could also be dampened by compressed demand in major economies due to tariff-induced industrial slowdown, weakening the US dollar. Trade

diversion may occur, with Chinese and Indian goods entering markets other than the US, which may also accentuate dampening pressures locally. Net importing economies such as Mauritius could stand to gain in this compressed demand scenario. However, the inflationary scenario should not be ignored. At the domestic level too, offsetting factors are at play. Weather-related shocks and productivity-adjusted wage hikes may accelerate inflationary pressures, albeit these could also be mitigated by the effects of a stronger rupee against the US dollar due to positive risk-adjusted interest differentials in the financial market which may partly help shield inflation in Mauritius from external developments. The Bank's assessment is that the net impact of these conflicting factors, both externally and domestically, has tilted the outlook for inflation more towards the upside. Consequently, headline inflation in Mauritius is poised to take an ascending trend and is expected to close the year at around 4.0 per cent.

Growth Developments and Outlook

20. Growth developments in Mauritius are tied to global developments. The global economy remains fragile. While recent trade deals have offered a degree of relief for some countries, the overall landscape is marked by heightened uncertainty as the global trade architecture is set to evolve with disruptions to global value-chains and to global shipping. With additional layers of complexity to an already delicate global financial system, major multilateral institutions remain vigilant in their growth projections for 2025. The IMF, in its July 2025 WEO Update, upgraded its global growth projections to 3.0 per cent for 2025 and 3.1 per cent for 2026 – a difference of 0.2 pp and 0.1 pp, respectively, relative to April 2025 forecasts. The latest projections have factored in recent breakthrough in bilateral trade talks, notably with China, while underscoring the positive effects of stronger-than-expected front-loading activities by US importers on growth outcomes for some main exporting countries, including the euro area and China.

21. Previously, the World Bank, in its Global Economic Prospects June 2025 report, had scaled down its global growth forecast to 2.3 per cent in 2025 and 2.4 per cent in 2026 on the back of potential fragmentation and growing uncertainty. These represent downward revisions of 0.4 pp and 0.3 pp, respectively, compared to the January 2025 report. The Organisation of Economic Co-operation and Development (OECD), in its June 2025 Economic Outlook, also projected global growth to slow to 2.9 per cent in both 2025 and 2026, compared to March 2025 projections of 3.1 per cent and 3.0 per cent, respectively.
22. Performance among the main trading partners of Mauritius has been heterogeneous in 2025Q1, with some countries already showing signs of a slowdown. In the US, quarter-on-quarter (q-o-q) GDP shrank by 0.1 per cent owing to the surging demand for imports in anticipation of tariffs, while government spending slowed on the back of fiscal consolidation. US consumer confidence took a blow as uncertainty regarding future economic conditions mounted and labour market fragilities surfaced. The euro area grew by 0.6 per cent q-o-q in 2025Q1, boosted by the front-loading of exports. Growth in the UK rebounded to 0.7 per cent q-o-q in 2025Q1, against the low growth of 0.1 per cent in the previous quarter, reflecting stronger exports and expansion in its services and manufacturing sectors.
23. Growth in China moderated to 1.2 per cent q-o-q in 2025Q1, down from 1.6 per cent in the previous quarter. Economic activity was supported by fiscal and monetary policies as well as rapid export growth, which coalesced to offset drags from the real estate sector. Similarly, the Indian economy grew by 2.0 per cent q-o-q in 2025Q1, from 1.9 per cent in the previous quarter. In South Africa, GDP growth fell to 0.1 per cent q-o-q in 2025Q1, reflecting weak investment and the impact of rising uncertainty on confidence and output.
24. Risks to the global growth outlook remain tilted to the downside. With progress marking greater clarity in international trade agreements among countries gradually seeping in, the overall picture about the global growth outlook should become clearer, going forward.

25. Risks to the domestic growth outlook remain resolutely tilted to the downside. After a relatively strong growth performance of 5.2 per cent in 2024Q4, the domestic economy expanded at a lower rate of 4.2 per cent in 2025Q1 on the back of sub-par performances in two key sectors, namely '*Construction*' and '*Accommodation and food service activities*'. The '*Construction*' sector experienced a contraction mainly due to structural factors. The '*Accommodation and food service activities*' sector contracted by 4.4 per cent in 2025Q1, with fewer cumulative tourist arrivals recorded between January and March 2025. However, momentum picked up in subsequent months and the island welcomed 658,909 tourists in the first semester of 2025 (2025H1), registering a growth of 2.1 per cent compared to 2024H1. Tourism earnings totalled Rs40.4 billion for the period January to May 2025, higher by 4.0 per cent compared to Rs38.9 billion in the same period last year. Other sectors recorded positive performances in 2025Q1.
26. The '*Financial and insurance activities*' sector grew by 4.2 per cent, reflecting the continued effort to cement the international reputation of the Mauritian International Financial Centre. In parallel, the '*Wholesale and retail trade*' sector grew by 3.1 per cent, supported by resilient household spending. The '*Manufacturing*' sector grew by 1.8 per cent.
27. On the demand side, consumption expenditure remained the main driver of growth in 2025Q1. Final consumption expenditure expanded by 4.7 per cent, supported by growth of 2.5 per cent in household spending and 14.2 per cent in government spending. Investment expenditure, measured by Gross Fixed Capital Formation, declined by 7.1 per cent, mirroring the contraction in the '*Construction*' sector. On the external front, net exports of goods and services dragged down growth in 2025Q1. Exports of goods and services expanded by 2.2 per cent, with higher exports of goods offsetting the contraction noted in the export of services as a result of a relatively poor performance of the tourism sector during the quarter. Imports of goods and services rose by 7.3 per cent over the same period, reflecting higher domestic consumption amidst rising household income.

28. The current account deficit as a ratio to GDP widened to 5.1 per cent in 2025Q1, from 4.8 per cent in 2024Q1, reflecting primarily a larger deficit in the goods and secondary income accounts, as well as lower surplus in the services account. Preliminary estimates show that the current account deficit will continue to widen in 2025Q2, reaching around 7.3 per cent of GDP, mostly due to a higher trade deficit considering the surge in vehicle imports. The external sector situation is expected to improve during 2025H2, but remains vulnerable to potential headwinds stemming from outside due to the uncertain geo-political environment. At this stage, the overall landscape remains cautious as stakeholders await further clarity on many unresolved issues.
29. ***The Bank now projects 2025 growth performance for the Mauritian economy to edge closer towards the lower end of its forecast range of between 3.0 to 3.5 per cent at the last MPC meeting and to hover around 3.0 per cent.***

Financial Market Developments and Financial Stability

30. The Bank continues its efforts to restore order in, both, the money and domestic foreign exchange (FX) markets.
31. As discussed at previous MPC meetings, the excess liquidity situation in the domestic financial market, if unaddressed, could lead to compressed yields and, by ricochet, to negative yield differentials with currencies such as the US dollar, and contribute towards fueling inflation.
32. Mindful of the risks associated with excess liquidity, the Bank pursued its open market operations with a view to maintaining an adequate level of liquidity in the banking system, whilst ensuring an efficient monetary policy transmission. Since the beginning of the financial year, a total amount of Rs12 billion was mopped up through Bank of Mauritius (BoM) Bills issued in the 91-Day tenor, at weighted yield ranging between 4.13 to 4.29 per cent. The bulk of rupee

excess liquidity was absorbed by the overnight deposit facility. Since the last MPC meeting, an amount of Rs52 billion was placed in this facility at the Overnight deposit rate of 3 per cent.

33. Measures taken by the Bank at the beginning of the year to eliminate market imperfections and restore order in the domestic FX market have begun to yield dividends in terms of improved FX turnover. A comparison of performance between 3 January and 11 August 2025, relative to the same period last year, shows noticeable improvements in flows in the domestic FX circuit. Banks purchased US\$868 million more in 2025 from foreign-currency generating sectors and sold US\$972 million more to sectors in need of foreign currency, out of which US\$200 million was sold to importers of motor vehicles in May and June 2025, ahead of budget-announced motor vehicle price hikes effective as from July 2025. They also include sale of US\$145 million and US\$372 million to the Central Electricity Board and State Trading Corporation, respectively, since the beginning of the year to meet both, their current payment obligations and, concurrently to reduce their outstanding swaps/lines of credit.
34. The FX market situation is normalising. Since the last MPC meeting, the Bank intervened twice to sell US\$40 million on the market. Total FX interventions by the Bank since the beginning of the year amounted to US\$90 million, compared to US\$195 million between 3 January and 12 August 2024. The rupee continues to reflect key economic fundamentals of demand and supply, as well as international currency movements. Between 7 May and 5 August 2025, the rupee exchange rate appreciated by 0.42 per cent against the US dollar, but depreciated by 2.66 per cent against the euro and 0.56 per cent against the Pound sterling.
35. Risks to financial stability in Mauritius are assessed to be moderate and are expected to remain so for the rest of 2025. Debt serviceability of households and of corporates remain in healthy zones. For households, favourable macro-financial conditions, including wage hikes and relatively low inflation, have played an important part in supporting their ability to service their debt obligations. The corporate sector remains supported by healthy balance

sheets, positive cash flows and earnings, albeit some cyclical sectors such as agro-industrial and construction sectors experienced some vulnerabilities. Indebtedness metrics for the corporate sector do not show any worrisome signals, albeit the ratio of Non-Performing Loans (NPLs) for the sector to total credit increased marginally in 2025Q1. Corporate sector indebtedness is assessed to be within sustainable bounds, whereas leverage in the household sector remains elevated relative to its historical trend, indicating potential debt sustainability concerns. Latest credit growth figures show that both sectors have benefited from expansion of bank credit in June 2025, with household credit growing by 12.3 per cent in June 2025 and corporate credit by 10.1 per cent. The corporate credit market does not exhibit signs of overheating but market pressures linger in the household segment.

36. The overall asset quality of the banking system remained sound and NPLs were adequately provisioned for. Overall, the banking sector displayed robustness and resilience, both solvency-wise and liquidity-wise. The Capital Adequacy Ratio was 21.8 per cent as of March 2025, well above the regulatory minimum of 12.5 per cent, reflecting strong ability of the banking sector to absorb shocks. In terms of liquidity management, banks maintained high Liquidity Coverage Ratio at 281.6 per cent in June 2025, significantly exceeding the regulatory threshold of 100 per cent. Stress test results demonstrated the resiliency of the banking sector in Mauritius to strong but hypothetical macroeconomic, credit, liquidity, interest rate and exchange rate shocks. The sound buffers maintained by the banking sector are broadly adequate to mitigate potential risks as they arise.
37. On the external vulnerability front, the Gross Official International Reserves (GOIR) of the country remain at comfortable levels, providing adequate buffers against potential external shocks. The GOIR stood at an all-time record level of US\$9.7 billion as at end-June 2025, representing 13.2 months of import cover (based on import bill of calendar year 2024), compared to US\$8.2 billion as at end-June 2024. The GOIR has risen even though the Bank has started to refund the external borrowings (Swaps and Repos) contracted during the pandemic.

MPC Decision

38. The MPC thoroughly reviewed developments taking place at the global and domestic levels and scrutinised the impact of various scenario-based assessments conducted by the Bank, whilst monitoring progress made over the last two MPC meetings.
39. There is no one-size-fits all solution to the challenges being posed by an uncertain global environment on, both, the inflation and growth fronts. Policy measures being implemented by central banks globally, in particular the direction, magnitude and patterns of policy changes, are calibrated to country-specific circumstances after a careful assessment of the balance of risks to the inflation and growth outlooks.
40. Since the Bank has a dual mandate of maintaining price stability and of promoting orderly and balanced economic development, the MPC faces a balancing act, i.e., mitigating inflation risks whilst not compromising on the Bank's growth objective. At the last MPC meeting, inflation risks were assessed to be on the upside while growth risks were assessed to be on the downside. Subsequent global and domestic developments indicate that the scenario has not changed. Growth prospects remain highly delicate and could be stalled, should a slowdown materialise among the main trading partners of Mauritius. Domestic Inflation has been on the rise recently, although on account of some transient budget-related factors. But the risks that it could rise further and more sustainably are real, reflecting potential passthrough effects of the tariff-induced global inflation which could last longer than expected. The more so that wage-induced services inflation in Mauritius has remained sticky since the beginning of the year.
41. As such, the MPC was faced with a difficult balancing act yet again. Given existing circumstances, the MPC decided that it was better to hold and wait for further information

about the likely evolution of the global and domestic environment, whilst remaining vigilant to the evolving balance of risks.

42. As a result, the MPC unanimously decided to keep the Key Rate unchanged at 4.50 per cent per annum at its meeting.
43. The MPC remains forward-looking and stands ready to meet in between its scheduled meetings and take appropriate actions on a data-dependent basis to achieve its dual mandate of maintaining price stability and promoting orderly and balanced economic development.
44. The next MPC meeting is scheduled for Wednesday 12 November 2025.
